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IN THE

Supreme Court of the United States

OCTOBER TERM, 1935.

Nos. 767 and 768.

DUPLATE CORPORATION AND PITTSBURGH PLATE GLASS COMPANY,

Petitioners,

v.

TRIPLEX SAFETY GLASS COMPANY OF NORTH AMERICA,

Respondent.

BRIEF FOR RESPONDENT.

ON WRITS OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT.

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SUPREME COURT OF THE UNITED STATES,

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DUPLATE CORPORATION and PITTSBURGH PLATE GLASS COMPANY,

Petitioners,

v.

TRIPLEX SAFETY GLASS COMPANY OF NORTH AMERICA,

Respondent.

BRIEF FOR RESPONDENT.

On Writs of Certiorari to the United States Circuit Court of Appeals for the Third Circuit.

Statement.

This case comes to this Court on Writs of Certiorari issued to the Third Circuit Court of Appeals and relates to a patent infringement account, and more particularly, to certain so-called rules of law that the Court of Appeals has laid down to guide the District Court in the restatement of the account which it has ordered (81 F. (2d) 352; R. 911).

Adopting the suggestion in Petitioners' Brief, we will, in order to avoid confusion, refer to the Respondent as plaintiff and to the Petitioner as defendant.

The opinions of the District Court and of the Court of Appeals on the trial and the appeal of the patent in suit No. 1,182,739 are reported in 42 F. (2d) at pages 737 and 739 respectively. The opinion of the Court of Appeals with respect to the accounting (R. 911-922) is reported in 81 F. (2d) 352 and the opinion of the District Court on the issues of the accounting (R. 871-878) is reported in 10 F. Supp. 420.

Recognizing, as we do, that this Court, in most instances at least, confines itself to a consideration of rules of law, nevertheless, we must also recognize that there can be no such thing as a naked rule of law applicable to the infinite variety of fact situations arising in different cases of patent accountings.

> *Armstrong* v. *Belding Bros. & Co.*, 297 Fed. 728, 732 (C. C. A. 2nd, Feb. 4, 1924, Hough C. J., Certiorari denied 265 U. S. 585);
> *Levin Bros.* v. *Davis Mfg. Co.*, 72 F. (2d) 163, 165 (C. C. A. 8th, July 5, 1934, Stone, C. J.).

We deem it necessary at the outset, therefore, to set forth the findings of fact peculiar to this case on which the Court of Appeals has predicated its conclusions of law applicable to this case.

These findings of fact are:

1. The claim of the patent in suit is for an article of manufacture never, before its issuance, known to the glass, automobile or any other industry. It is a pioneer patent and partakes of the humane (42 F. (2d) 737 and 739). It is not a claim for a process of manufacture. The distinction is important.

2. The defendant had knowledge of the patent in suit when it began its infringement (R. 827).

3. The defendant was advised by three patent counsel of its own selection that if it dried its gelatine so as to leave it substantially free from moisture, it would infringe (R. 828).

4. Defendant disregarded the advice of its patent counsel by using heat (an air drier) to dry the gelatine after it was placed on the glass (42 F. (2d) 737, R. 794).

5. The plaintiff had invested in its laminated glass business $2,800,000 (R. 830), which has been destroyed by defendant's infringement (R. 826).

6. The purchasing public knew nothing about laminated glass in 1926 when the plaintiff started its business (R. 822).

7. Through the efforts of the plaintiff, by an advertising expenditure of $250,000 on its own part and an expenditure of $15,000,000 on the part of Ford Motor Company (R. 825) the manufacturers of motor cars and the purchasing public were, in the beginning of 1928, when the defendant began its infringement, made conscious of the advantages of laminated glass (R. 825-826).

8. Plaintiff had succeeded in getting Yellow Taxicab, Lincoln Motors Co. and Ford Motors Co. to adopt laminafed glass as standard equipment and the Cadillac, Chrysler, Buick and Hudson Companies to adopt laminated glass as optional equipment (R. 825).

9. Plaintiff, at the time the infringement began, had established a market for laminated glass (R. 830).

10. When the defendant entered the field, it established prices considerably lower than those of plaintiff, which naturally led considerable business to leave plaintiff and go to the defendant and also caused a reduction in plaintiff's selling prices (R. 826) and induced plaintiff's customers to breach their

contracts and refuse to pay the contracted price (R. 819).

11. The price policy of the defendant substantially drove the plaintiff out of business (R. 826).

12. The Pittsburgh Plate Glass Company is the infringer, having accomplished its infringement through its *alter ego,* Duplate Corporation (R. 797, 835).

It is true that in spite of these findings of fact, the District Court and the Court of Appeals have concluded that Pittsburgh Plate Glass Company did not deliberately infringe, being led to that conclusion by the additional finding that counsel for Pittsburgh Plate Glass Company, after examining plaintiff's patent and *"plaintiff's process"* advised Pittsburgh Plate Glass Company that it did not infringe.

Just how this conclusion flows from the above recited facts we are unable to follow. The Master's finding on this question of deliberateness is more accurate than the Court of Appeals' statement. It is that counsel for defendant advised that if the defendant "dehydrated (dried) its gelatine by means of a dehydrating agent (a drier) so as to leave it substantially free from moisture, it would infringe (R. 828). That advice defendant disregarded.

However, it is eminently clear that in arriving at its other conclusions, more particularly discussed hereinafter, the Court of Appeals undoubtedly did not and could not disregard the foregoing findings of fact.

Moreover, while it is true that the application by the Court of Appeals of the so-called rules of law to this case, results in a substantial recovery for the plaintiff, nevertheless, when considering this aspect of the case, it should be borne in mind that this defendant did a very large infringing business, having sold approximately four million square feet of infringing glass (R. 844A and B) and that the glass business is one in which large profits are made. This

is apparent when we consider that defendant had a cost for ordinary plate glass of approximately fifteen and a half cents (15½¢) per square foot and sold its ordinary plate glass at thirty-five (35¢) to forty-one and a half cents (41½¢) per square foot (R. 844A and B). Finally it should not be forgotten, in our consideration of this aspect of the case, that this plaintiff has suffered a substantial damage by defendant's infringement and the manner in which that infringement was conducted. The plaintiff's investment of $2,800,000 has been destroyed.

Objections to Defendant's Specification of Errors.

Specification of Errors 6, 7 and 8 are objected to on the ground that they broaden the errors specified in the Petition for the Writs, which is contrary to the Rules and Practice of this Court.

We therefore respectfully pray that defendant be not heard on these specifications of error.

Argument.

We now pass to a consideration of the application by the Court of Appeals of the so-called rules of law to the facts of this case.

I.

Computation of Defendant's Profits.

1.

The Cost of Manufacturing Defective Product.

The terms "wastage" and "factory operating losses", as used in defendant's brief, are misleading unless accurately defined. Those terms must be read as being synonymous with "defective product", because, whenever

throughout this litigation the terms "wastage", "factory operating losses", "rejects" and "returns" were used, either by the parties, the Master, the District Court, or the Court of Appeals, they were intended to mean defective product, which was either "rejected" in defendant's factory or "returned" by the customer (R. 806, 809, 874, 915).

All other "wastage" and "factory operating losses" which the defendant was able to prove were conceded by plaintiff as an item of expense in the account.

The fact is that Pittsburgh Plate Glass Company exhibited an inordinate haste to rush into the laminated glass business. The reason for this haste is apparent. Until the latter part of 1927, Pittsburgh Plate Glass Company resisted the introduction of laminated glass (R. 123). On October 17, 1927, after a year and a half of expense and effort, the plaintiff made a contract with Ford Motor Company, whereby the latter company adopted laminated glass as standard equipment on its new Model-A Car (R. 1011). No one can doubt that when that fact became known, it aroused the automobile industry (R. 826). In less than three months thereafter, on January 1, 1928, Pittsburgh Plate Glass Company, which had theretofore supplied practically every automobile manufacturer with non-infringing shatterable glass, thereupon rushed, helter-skelter, into the non-shatterable laminated glass business (R. 254-275; 295; 312; 337, 345).

The inevitable result of this rush to get the business in non-shatterable laminated glass was that the loss (from defective glass) was so great and the accumulation of defective laminated glass became so great that it almost crowded defendant out of the building in which they were operating (R. 273, 340).

The three page statement of the manner of calculating the total cost of making this defective product, set forth on pages 15-18 of defendant's brief is confusing.

It is confusing because on it is predicated the argument that included in the amount of $1,477,364.84 there *must*

have been some breakage and cutting loss as distinguished from completely finished defective product, although it is true the defendant concludes its argument by the statement, at page 20 of its Brief, that so far as it is concerned it makes no difference whether the whole or only a part of this item is made up of completely fabricated units or some other kind of loss occurring in the factory.

Neither the statement nor the argument, however, attempt to segregate the cost value of the breakage and cutting losses from the cost value of the completely fabricated rejects. There is not a scintilla of evidence in the record by which this segregation may be made, except in so far as it has been conceded by plaintiff. There is an abundance of evidence in the record, however, that included in this item aggregating $1,477,364.84 was the cost of making a tremendous quantity of defective laminated glass. (R. 272, 273, 274, 345, 346, 348).

Even defendant's brief, at page 25, admits that the testimony shows that quantities of fabricated laminated glass were rejected in the factory. Moreover, there are repeated findings by the Master, the District Court and the Court of Appeals that a tremendous quantity of defective laminated glass was included in this item. The Master finds that "Many rejections of *finished* Duplate (laminated glass) resulted from the operation of this (Pressing) Department" (R. 806); he finds "a considerable amount of the infringing product had to be rejected or 'scrapped' in order that a certain volume of salable specimens might be produced" (R. 829). As we read this finding the Master is talking about finished product.

The District Court explains its use of the term "Factory Operating Losses" by the words in parenthesis, to-wit, "(Rejects and Returns)" meaning as we read it that a "reject" is the same as a "return" and even the defendant admits that a "return" is a completely fabricated unit. And if that is not enough to show what precise point the District Court was considering, the opening sentence completely

clarifies the point. The District Court says (R. 874): "The Master has found that a considerable amount of laminated glass had to be *turned out* only to be rejected or returned". Surely, this language refers to completely fabricated laminated glass. Finally, the Court of Appeals also in its consideration of this point as to whether this item may be inincluded in defendant's cost, is speaking of completely fabricated units. It says (R. 915): "The accounting infringer may not offset against the profit which it made on the sale of infringing product the loss which it sustained in the manufacture of such of the *product*, as had not been sold, because defective, or, if sold, had been returned for the same reason."

Throughout this long litigation, then (eight years), every one connected with it has treated this item as representing completely fabricated, but, defective laminated glass from which the question of law arises as to whether a loss of that character may be allowed the infringer as an element of cost. The defendant has never done more than to attempt to prove that included in this item there "might" or "must" have been some losses other than those arising from the cost of making complete units. Even if we concede that to be so, then the contention of the plaintiff is, as it was before the Master and the lower courts, that it was the duty of the defendant to have so kept its records as to show how much of this item constituted a proper allowance in this patent account. Since it failed to do so, then the so-called "confusion rule" is applicable and the defendant may not have any part of this item as an allowance.

> *Westinghouse* v. *Wagner*, 225 U. S. 604, 620 (June 7, 1912, Justice Lamar).

To say, as defendant does, that the position as argued by the plaintiff now is different from the position taken by the plaintiff before the Master is entirely unwarranted. Plaintiff's Exceptions to the Master's Report, Twenty-first

to Thirtieth (R. 852-853) and Plaintiff's Assignments of Errors 22 to 29 were directed to this point (R. 901-903).

Since, therefore, it is clear that Pittsburgh Plate Glass Company completely fabricated a vast amount of defective laminated glass, accordingly, in this brief, we shall use the term "defective product" in referring to this item because the term "defective product" more closely defines the product that is the subject of the ruling of the Court of Appeals.

THE RULING: The first point raised by the defendant on this appeal is that the Court of Appeals erred in failing to allow the defendant to include in its cost of manufacturing, the cost of manufacturing such of its product as had not been sold because it was defective, or if it had been delivered to a customer, was returned for the same reason (R. 915).

That precise point was decided by this Court in *Crosby Steam Gage & Valve Co.* v. *Consolidated Safety Valve Co.*, 141 U. S. 441, 454 (November 2, 1891, Justice Blatchford). There the Supreme Court, after a review of its own decisions, and the decisions of other Federal Appellate Courts, holds that a claim for the allowance of the cost of making defective product is not permissible in a patent infringement account, saying that the only subject of inquiry is the profit made by the infringer on the articles it sold at a profit and for which it received payment, and that such losses incurred by the infringer through its wrongful invasion of the patent are not chargeable against the owner of the patent nor can their amount be deducted from the compensation which the owner of the patent is entitled to receive.

The attempt on the part of defendant to limit the scope of the *Crosby* holding to the cost of making experiments is in disregard of the plain and unmistakable language of the Court. It is undeniable that the Court was considering a number of valves which were defective, some of which were

discovered to be such before they were sold and thereupon destroyed, and others of which, having been sold to customers, were returned and new valves given to replace them, and the returned valves destroyed.

At page 454 this Court states the facts involved in the *Crosby* case:

> "The defendant contends that the master and the Circuit Court erred in disallowing as a credit to the defendant in diminution of the profits reported, the sum of $1,978.34, it being contended that that was an expense suffered by the defendant in modifying and reconstructing certain valves to render them more perfect and more salable. These were valves made by the defendant and destroyed by it before sale, or after a sale and an exchange for other valves: which destroyed valves did not appear in the account on either side, thus becoming unsold valves."

At page 457 the Court states the applicable rule of law to such a state of facts:

> "Without going into details, it is sufficient to say that we concur in the conclusion that the defendant was not charged for valves which were subsequently destroyed, or, if so, it was not charged upon the new valves which replaced the destroyed valves.
>
> "As for the contention that the destroyed valves ought to form a credit against the profits actually realized by the defendant on other valves, it is sufficient to say that the only subject of inquiry is the profit made by the defendant on the articles which it sold at a profit, and for which it received payment, and that losses incurred by the defendant through its wrongful invasion of the patent are not chargeable to the plaintiff, nor can their amount be deducted from the compensation which the plaintiff is entitled to receive. The Cawood Patent, 94 U. S. 695; Elizabeth *v.* Pavement Co., 97 U. S. 126, 138; Tilghman *v.* Proctor, 125 U. S. 136."

Moreover, the defendant's argument that defective product constitutes manufacturing wastage in the sense of

that term as used in the decisions of the Supreme Court, an example of which is *Manufacturing Co.* v. *Cowing*, 105 U. S. 253, (1881, Mr. Justice Waite) is also untenable because that identical argument was made by the defendants in the *Crosby* case at page 455 of the report (141 U. S.) and this Court rejected it.

In this connection too, it is significant that *Manufacturing Co.* v. *Cowing* was decided in 1881 and the *Crosby* case was decided in 1891, and that five of the Justices who rendered the decision in the *Cowing* case also concurred in the decision in the *Crosby* case. It is not possible, therefore, that those cases conflict.

The principle of the *Crosby* case is also enunciated in *Callaghan* v. *Myers*, 128 U. S. 617 (December 17, 1888, Mr. Justice Blatchford). In that case the defendant was not permitted to charge the cost of producing copies of the infringing book on hand at the end of the accounting period.

The defendant attempts to distinguish the *Callaghan* case by the fact that the unsold books were still on hand at the end of the accounting period, whereas in the instant case the defective laminated glass was destroyed before the end of the accounting period. We submit that this distinction is not well founded.

As a second ground of distinction, defendant argues that in the instant case the production of the defective product went on in the factory concurrently with the production of the good infringing product. We submit that the goods on hand in the *Callaghan* case also went on, that is, were printed in the factory concurrently with and as a necessary part of the production of the infringing books which were sold. To say otherwise is to disregard the common knowledge as to the manner in which the publishing business is conducted.

Ever since the Supreme Court made its pronouncement in the *Crosby* case, that case has been considered as enunciating the principle of law to be followed in subsequent

accounting cases. The Court of Appeals in the instant case has followed the holding of that decision.

So far as counsel have been able to find after diligent search, no United States Circuit Court of Appeals has departed from the decision in the *Crosby* case. On the contrary, both the United States Circuit Courts of Appeals and the District Courts have consistently followed the principle enunciated in the *Crosby* and *Callaghan* cases.

In *McKee Glass Co.* v. *H. C. Fry Glass Co.*, 248 Fed. 125 (C. C. A. 3rd Jan. 29, 1918, Woolley, C. J.) at page 128, it is held that the infringer's contention that the plaintiff was entitled only to net profits after deducting the losses on some sales from the profits on others, was not tenable for the reason that losses incurred by an infringer through its wrongful invasion of plaintiff's patent are not chargeable to the plaintiff, citing the *Crosby* case.

It is not accurate to say as defendant does in a foot-note at page 32 of its brief, that the Court in the *McKee* case based its holding on wilfulness or increased the actual profits because the defendant had violated an injunction. Those elements were not a factor in that case and the Court says so. The Court, at page 127 of the report says it is "not called upon to consider or decide any question of punitive or remedial penalties in contempt proceedings, because the record makes it very clear that the award in this case was within the principle contended for by the defendants, in that, it shows no attempt on the part of the Court to impose a punitive penalty, but shows, on the contrary, that the Court was careful to restrict its award to compensation for injuries actually sustained." Moreover, it is clear from the decision that the character of the business was as is usual, viz., a continuously conducted business.

In *Permutit* v. *Refinite Co.*, 27 F. (2d) 695 (C. C. A. 2nd, July 9, 1928, L. Hand, C. J.) at page 698 the holding is that a plaintiff has the right of taking into account only profitable sales and ignoring the unprofitable sales.

In *Oil Well Improvements Co.* v. *Acme Foundry & Machine Co.*, 31 F. (2d) 898 (C. C. A. 8th, March 19, 1929,

Stone, C. J.) at page 900 the holding is that the manufacturing cost of infringing devices on hand at the end of the infringing period, less their junk value, cannot be deducted from profits on devices sold by the infringer.

DEFENDANT'S CITATIONS: The defendant, somewhat recklessly, as we think, cites certain cases as standing for a view, contrary to the *Crosby* and the other cases cited above. We have carefully considered those cases and confidently assert that none of them enunciate propositions of law that are in conflict with the *Crosby* and other cases cited, supra; and we also confidently assert that no case of any Circuit Court of Appeals of the United States can be found which is in conflict with the decision of the *Crosby* case or in conflict with the holding of the Court of Appeals in the instant case.

Defendant's citation of *Manufacturing Co.* v. *Cowing,* supra, begs the question. No one has ever questioned that there are certain manufacturing wastages that are allowable. The question here is whether defective product is wastage of the kind that is allowable. Five of the Justices of this Court, concurring in *Manufacturing Co.* v. *Cowing,* have said that it is not. See *Crosby* case, supra.

As we read *Permutit Co.* v. *Refinite,* 27 F. (2d) 695, 697 (supplemented by our knowledge of the record), the guaranty referred to was a guaranty to maintain a filter apparatus by the seller and such guaranty applied to all contracts of sale. It was not possible to determine how much maintenance expense was attributable to each filter, so the court averaged all the maintenance expense over all filter contracts and allowed this averaged expense against each profitable account. The court refused to allow the loss on unprofitable contracts to be deducted from the profits on profitable contracts (page 698). The case therefore is not in conflict with the decision of the Circuit Court of Appeals in the instant case, but is in accord with it.

Stromberg Motor Devices Co. v. *Zenith Detroit Corp.,* 73 F. (2d) 62, seems to be cited by the defendant because of the holding at pages 64-65 of the decision, that interest on

investment and federal taxes are proper allowances in a patent infringement account.

Levin Bros. v. *Davis,* 72 F. (2d) 163 is seemingly cited because of a discussion, at pages 165, 166 of the term "profit" as that term is affected by overhead.

Wallace & Tiernan Co. v. *Syracuse,* 45 F. (2d) 693 is seemingly cited because in the context at page 695, where the Court is discussing the profits lost by the patent owner (not the infringer's profits), the expression is used that in arriving at the patent owner's profits, "there must, however, be deducted all his expenses". Just what that has to do with the instant case we are unable to see.

Stromberg Motor Devices Co. v. *Detroit Trust Co.,* 44 F. (2d) 958, is cited because of the holding at page 963 that royalties paid to third parties for the use of a patent which the infringer incorporated in the infringing structure are properly allowable; and because of the general statement appearing on page 964 that when recovery of profits is sought, the one seeking them takes whatever chance there is in reduction in the profits by the usual and proper expenses and allowances.

Oil Well Improvements Co. v. *Acme Foundry & Machine Co.,* 31 F. (2d) 898, is cited because at page 900 a bad debt, incurred in the sale of some infringements was allowed. Obviously, the holding is that since the purchase price for some of the infringements was never collected, neither the selling price, nor the cost of those infringements should appear in the account. The case is pertinent to the instant case only in that while the court allowed this bad debt, nevertheless, it disallowed the manufacturing cost of the infringements which were on hand at the end of the infringing period, citing with approval, the *Crosby* case, supra. The case is therefore authority for the distinction between such items as bad debts and such items as manufacturing costs of defective product and unsold inventory.

L. P. Larson Jr. Co. v. *Wm. Wrigley Co.,* 20 F. (2d) 830 is seemingly cited because at page 832, in allowing a deduc-

tion for advertising the infringing article, a general statement with respect to profits is made. The case is perhaps further cited because, as the defendant says, a deduction for Federal taxes was allowed and a general statement as to the manner of arriving at profits was made in connection with that deduction.

In *Union Elec. Welding Co.* v. *Curry*, 279 Fed. 465, at the cited page 467, the discussion relates to the propriety of offsetting the losses made in one year against the profit made in a subsequent year. The case cites with approval the *Crosby* case, supra.

The Court allowed the loss in 1912 and refused to allow the loss in 1916.

Judge Denison, who is learned and experienced in patent accountings says, at page 467, that while the general rule is that losses in one period may not be deducted from profits in another, *Crosby Valve Co.* v. *Consolidated*, supra, *Canda Bros.* v. *Michigan*, 152 Fed. 178 (C. C. A. 6th) and says further that the applicability of the rule must depend on the facts of the case. Just what all the facts were in the *Union Welding* case does not fully appear in the decision, but in the meager description of those facts as given in the opinion (at pages 467, 468) it is clear that no similar or even analogous facts are present in the instant case. In the instant case there is no proven loss in one period of infringement nor a proven gain in another period. It is idle to argue that the rejects in the instant case, which were never sold, helped the infringer to make profits from the infringements that were sold and remained sold, because it is manifestly evident that the exact opposite is the case here. The infringer, the defendant here, has always argued and still argues that because of the cost of making defects, it was unable to make a profit on the infringements that it sold. We can see no pertinency in the decision of Judge Denison to the question whether an infringer may charge the cost of making defective product against the profit made from the sale of good product.

Now with respect to these cases cited by the defendant as being in conflict with the decisions of the *Crosby* and *Callaghan* cases, it is apparent that the general statements contained in the decisions cited by the defendant get us nowhere in our consideration of the point involved in the instant case. They are not helpful to a conclusion as to whether the cost of manufacturing defective units is a proper allowance in the instant case.

Neither does the single sentence, culled from the opinion of Chief Justice Hughes in *Leman* v. *Kreutler-Arnold Co.*, 284 U. S. 448,456 and quoted in a foot-note on page 10 of defendant's brief, help us. The instant case does not involve punishment for contempt which is the point in connection with which Mr. Justice Hughes used the quoted sentence. Indeed in the instant case, the effect of the Court of Appeals' decision does not result in punishment but simply awards compensation to the injured plaintiff.

The courts using those general statements certainly did not intend that they were to apply to every allowance that confronts the court and as we have shown above, in one or two instances, this is made clear in the decisions themselves.

Defendant's argument that the same principle is involved in the *Crosby* case as is involved in the cases in the Courts of Appeals which allowed such items as interest on investment, federal taxes, etc., is wholly untenable because the argument leads to the conclusion that these Courts of Appeals' decisions overrule the decisions of this Court.

In any event, the cases cited by the defendant do not involve the question of an allowance for the manufacturing cost of defective product and defendant admits that to be the fact in the note at the bottom of page 27 of its brief.

It ought not to be necessary to digest the cases in the Third Circuit Court of Appeals, viz., *Continuous Glass Press Co.* v. *Schmertz Wire Glass Co.*, 219 Fed. 199, and *MacBeth Evans Glass Co.* v. *L. E. Smith Glass Co.*, 23 F. (2d) 459, because both those cases were specifically called

to the attention of the Court of Appeals and they were clearly not overlooked. It is to be presumed that the Court of Appeals in deciding the instant case, knew the scope and extent of its decisions in the *Continuous Glass* case and the *MacBeth Evans* case.

It is important to note, however, that in the *MacBeth Evans* case, supra, the question did arise as to whether an infringer could charge into his account as a part of his cost, the cost of making some lenses that were unsold. The Court refused to allow such a charge after explaining its decision in the *Continuous Glass* case, citing with approval *Callaghan* v. *Myers*, and the *Crosby* case, supra.

The discussion in the decision of the District Court in *MacBeth-Evans Glass Co.* v. *L. E. Smith Glass Co.*, 21 F. (2d) 553, 559 (D. C. W. Dist. Penn. March 8, 1927, Thomson, D. J.) relating to the continuity of a business and the conclusion there arrived at is based on a misconception of the decision in the *Crosby* case.

We therefore respectfully submit that the rule of the *Crosby* case must be applied to the facts in the instant case, and we further submit that the citations in the defendant's argument do not disclose any conflict between the decision of the Court of Appeals in the instant case and the decisions of this Court in the *Crosby* and *Callaghan* cases, nor any conflict with the decisions of any other Circuit Court of Appeals.

2.

Whether thin plate glass may be charged in this account at cost or market value.

THE RULING: The second point raised by the defendant on this appeal relates to the conclusion of the Court of Appeals that in view of the fact situation peculiar to the instant case, Pittsburgh Plate Glass Company could charge only the actual manufacturing cost of the one-eighth inch plate glass that it incorporated in the infringing product, laminated glass.

Three separate forums and five individual judges have rendered five separate opinions (R. 833, 866, 797, 871, 911) on this point, all of which are in agreement, that this conclusion of the Court of Appeals is necessary and inevitable in view of the facts presented.

That factual situation on which the Court of Appeals based its conclusion in the instant case is:

1. That Pittsburgh Plate Glass Company with full knowledge of the patent accomplished its infringement through its creature, Duplate, which was formed for the express purpose of infringing this patent (R. 17-28, 797, 835);

2. That one-eighth inch glass was worthless to the automobile industry, hence there was no market and therefore no market value for the sale of one-eighth inch plate glass to the automobile industry (R. 836);

3. That laminated glass displaced the heavier grades of plate glass in automobile construction (R. 836);

4. That plaintiff by its own efforts and at substantial expense had, at the time the infringement began, established a market for laminated glass (R. 825, 830);

5. If Pittsburgh Plate Glass Company had not infringed the patent in suit, it would not only have failed to sell one-eighth inch plate glass to the automobile industry, except to plaintiff or its licensees, but would also have lost the sale of heavier plate glass which laminated glass displaced (R. 836);

6. That the plate glass manufactured by Pittsburgh Plate Glass Company for incorporation in the infringing device represented just so much that it would not otherwise have sold and returned a profit which it would not have made save for the infringement (R. 838);

7. The Pittsburgh Plate Glass Company not only fixed the prices at which it sold the plate glass to its *alter ego* Duplate Co., but marketed the infringing product and fixed the price for it. Duplate Corporation was a mere department of Pittsburgh Plate Glass Company in transacting the infringing business.

8. That Pittsburgh Plate Glass Company carried on a cut price policy in competition with plaintiff, the effect of which was to drive plaintiff out of the laminated glass business (R. 826);

9. That to permit Pittsburgh Plate Glass Company to charge in this account, the billing price for one-eighth inch plate glass to its *alter ego*, Duplate, would have the effect of allowing the infringer to retain all the profit it made on the sale of the infringing product, thereby defeating the very purpose of the patent laws (R. 838, 839);

10. That the market for one-eighth inch plate glass was created by Pittsburgh Plate Glass Company's infringement, since it would not have sold one foot of one-eighth inch plate glass to the automobile industry except for its infringement (R. 840).

Flowing logically from these findings is the conclusion that the infringer's preconceived plan in conducting its infringement was to charge a large profit for the raw material that it incorporated into the infringement, pocket that profit for itself and then sell the completed infringement at or below cost, when cost is figured as including the so-called market price of such raw material (R. 842).

On page 35 of defendant's brief it is said that the Master has found "(3) that the infringing article was not a new article of commerce in the sense that it would have been had there been no prior windshields or body lights in automobiles". Neither at the page of the record cited,

nor at any other page of the record is there is to be found such a finding by the Master. On the contrary, the findings of the Master, the District Court and the Court of Appeals are that the infringing article was a new article of manufacture, never before known to the glass, automobile, or any other industry (42 F. (2) 737, 739).

Moreover, the matter identified as "(4)" on page 35 of defendant's brief does not accurately state any finding of the Master as made at the page of the record cited, or at any other page of the record.

Neither did the Master predicate his conclusion that only the manufacturing cost could be charged in the instant account on the motive (good or bad) that the infringer exhibited. On the contrary, he concluded that the defendant here was actuated by a good motive, though just how that conclusion arises from the facts he found, we cannot understand.

Throughout defendant's argument, it treats Duplate Corporation and Pittsburgh Plate Glass Company as separate entities and complains, at page 39, that the Master treated them as a single entity. The Master could not have done otherwise. The Supplemental Interlocutory Decree (R. 28) determined that these two legal entities should be treated in this Equity Court as one.

Defendant repeatedly admitted in its arguments before the Master that each of these two entities were the *alter ego* of the other. Based on this judicial determination, from which the defendant took no appeal, as well as on the admissions of the defendant, the Master found that it has been *determined*, as well as *admitted*, that the Duplate Corporation was the *alter ego* of Pittsburgh Plate Glass Company severally and *vice versa* (R. 835).

The fact that DuPont Viscaloid Company was *particeps criminis* in the plan of setting up the Duplate screen, changes neither the fact nor the law, nor does it mitigate the injury accomplished thereby. Nor is there anything

anomalous in two legal entities utilizing a corporate screen for the purpose of hiding an ulterior purpose.

> *Chicago Milw. & St. Paul* v. *Minneapolis Civic Assn.*, 247 U. S. 490 (June 10, 1918, Justice Clarke).

Such of defendant's arguments, therefore, as are predicated on the treatment of these entities as separate should be disregarded.

We respectfully submit that to say that the result of the ruling of the Court of Appeals on this point gives to the plaintiff a "bonanza of large proportions" is unwarranted and unjustified. While it is true that the profits earned by Pittsburgh Plate Glass Company are "easily segregated", it is not accurate to say that those profits were earned by the sale of non-infringing and otherwise marketable plate glass, because it has been found by the Master, the District Court and the Court of Appeals, that the plate glass here in question was not marketable in the automobile industry and it has further been found that these "easily segregated profits" arose directly from defendant's infringement (R. 836, 839).

All arguments as to the error of this rule predicated on "ifs", "ands" and different factual situations, or as the defendant puts it "converse situations" are beside the question. All these conjectural arguments merely result in this—that if Pittsburgh Plate Glass Company had not infringed, it might have made more profits. That too, of course, gets us nowhere in our consideration of the instant case.

The defendant argues that in spite of the findings of fact present here, and in spite of the obvious injustice, that would result from its argument, if followed, this case must be governed by the rule of law stated in *Barber Asphalt Paving Co.* v. *Standard Asphalt & Rubber Co.*, 30 F. (2d) 281 (C. C. A. 7th, October 4, 1928, Evans, C. J.) at page 284, which rule reads—

> "(b) Where non-infringing commodities, which are marketable, that is, fit for market, are produced by the infringer, and subsequently used by him in making the infringing products, then market value (ordinarily selling or transfer value) rather than cost to the infringer is the proper basis for determining profits."

If defendant is sustained, and this ruling is applied to the instant case, then it must be applicable to all cases for it would be difficult to imagine a case where the rule would not apply, if it applies here.

The question then is—Does rule (b) of the *Barber* case constitute an inexorable rule that may not be disregarded by lower courts in any case involving patent accountings no matter what the facts? If the law is to be made that inflexible, then any infringer who is fortunate enough to have the facilities for manufacturing the raw materials that go into an infringement, may infringe a patent with impunity, for the way is clearly pointed out, in the defendant's conduct here, by which liability may be avoided. If the rule of the *Barber* case is applied to the instant case, then Pittsburgh Plate Glass Company will be permitted to retain for itself $2,465,600.41 profit (R. 844A & B) which it would not have made but for its infringement.

The Master, the District Court and the Court of Appeals have concluded that to apply the rule of the *Barber* case to the instant case does violence to their common sense and shocks their conscience (R. 840, 799 81, F. (2d) 358).

Was not equity jurisdiction established to prevent just such operations of a naked rule of law?

Obviously a conclusion of law predicated upon a particular factual situation cannot fairly be said to be in conflict with another conclusion of law predicated upon an entirely different factual situation.

It is a truism that there are few, if any, absolutes in the law. "It is idle, therefore, to say that any hard and fast rule can be made applicable to all cases where profits

are to be accounted for. The court and the accounting officer will consider each case in the light of its own peculiar characteristics and deal with it practically and in a common sense manner."

The Master, the District Court and the Court of Appeals have, therefore, refused to apply the rule of the *Barber* case and applied the rules stated in the following cases:

Conroy v. *Penn. Electrical Mfg. Co.*, 199 Fed. 427, 429 (C. C. A. 3rd, October 11, 1912, Witmer, D. J.);

Union Elec. Welding Co. v. *Curry*, 279 Fed. 465, 467 (C. C. A. 6th Feb. 17, 1922, Denison, C. J.);

Armstrong v. *Belding Bros. & Co.*, 297 Fed. 728, 732 (C. C. A. 2nd Feb. 4, 1924, Hough, C. J.; certiorari denied 265 U. S. 585);

Levin Bros. v. *Davis Mfg. Co.*, 72 F. (2d) 163, 165 (C. C. A. 8th, July 5, 1934, Stone, C. J.).

The *Armstrong* Case, supra, involved a patent on a holder for skein silk. Defendant enclosed in the patented holder some skein silk, an article of commerce (having an old and established market value) manufactured by it. The court, rejecting infringer's contention, held that it was not entitled to charge in its account the market value of the skein silk sold in the infringing holder (R. 840) because of the peculiar facts there present, stating at page 732:

> "What created the demand so supplied was not the desirability of the old silk but that of the new holder, and the language quoted above from the *Vandenburgh* Case is wholly applicable; defendant would not have sold a pound of holder silk had it not availed itself of plaintiff's patent, therefore, it must pay the profit on all sales so made."

The history of the *Armstrong* Case in the District Court will be found in 280 Fed. 895. A consideration of the opinion in 280 Fed., affirmed by the opinion of Judge

Hough, 297 Fed. 728, makes it clear that the opinion in 178 Fed. 554 (cited in the *Barber* Case) is not the law of the *Armstrong* Case.

The only attempt defendant made to distinguish the *Armstrong* Case from the instant case is to point out at page 42 of its brief that in the *Armstrong* Case, "It was found as a fact that the defendant there could not have sold a pound of silk had it not infringed the plaintiff's patent."

But that finding surely does not constitute a "vast" distinction between the *Armstrong* Case and the instant case, because an identically similar fact has been found in the instant case, viz., that Pittsburgh Plate Glass Company could not have sold a foot of the one-eighth inch plate glass here in question had it not infringed the plaintiff's patent.

The *Union Welding* Case, supra, involved a patent for a tool for twisting ties. The infringer supplied the patented tool to persons who desired to tie bags by the use of the patented tool, making only a nominal charge for the tool but making its profit out of the sale of ties to such users. The ties were not patented, yet the Court of Appeals for the Sixth Circuit forced the infringer to account for and pay over the profit it made on the sale of the non-patented ties, saying at page 469:

> "The liability to account for profits from an article that does not, by itself alone, infringe, and under conditions analogous or parallel to those here, is sustained by Wales *v.* Waterbury (C. C. A. 2nd) 101 Fed. 126, Rumford *v.* N. Y. Co. (C. C.) 136 Fed. 873; Consolidated Co. *v.* Diamond Co. (C. C. A. 2nd) 232 Fed. 475".

DEFENDANTS' CITATIONS: In the *Barber* Case, the attempt was made to recover the profits "derived from the mining and refining of natural asphalts". Those natural asphalts were processed and had a known market value in the roofing industry. Some of them were included in the

patented prepared roofing. The court, in refusing the request of the patent owner to include the profits arising from the mining and refining of the natural asphalts, laid down the rule which is the subject of controversy here.

No contention is made by the plaintiff in the instant case that defendant here should account for the profits it made on the mining and refining of the sand, soda, ash and lime which goes into glass; nor did the one-eighth inch glass have any worth or market value to the automobile industry (R. 836). The *Barber* Case is, therefore, distinguishable on its facts.

In *Wallace & Tiernan Co.* v. *Syracuse,* supra, the Court was considering a patent that did not cover the whole infringing apparatus and said that in such a case "a reasonable manufacturing profit upon the unpatented part of the apparatus" should be allowed, but pointed out that in the *National Folding Box Case* vs. *Elsas,* 86 F. 917, the same court said "That an allowance of the ordinary profits of manufacture was proper only when the patent did not cover the whole infringing apparatus".

In the instant case, the patent of the plaintiff does cover the whole infringing product. There was no question involved in the *Wallace & Tiernan* Case, such as is involved in the instant case.

The discussion in *National Tube Co.* v. *Mark,* 10 F. (2d) 43 at the cited page recites facts which bear no relation whatever to the facts of the instant case.

In *Stromberg Motor Devices Co.* v. *Detroit Trust Co.,* 44 F. (2d) 958, at the cited pages 964, 965, we can find no discussion of any subject which is pertinent to the point here discussed. Indeed whatever discussion and whatever holding is made by the court at the cited pages leans rather toward the plaintiff's position on the point here considered.

Neither do we see any analogy between the point here discussed and the holding in *Diamond Drill & Machine Co.* v. *Kelley,* 131 F. 89; nor is the holding in *Westinghouse Elec. & Mfg. Co.* v. *Wagner Elec. Co.,* 225 U. S. 604, 615

pertinent, to defendant's argument, but it supports plaintiff's position, because it was held that where the patent involved a complete entire structure, the owner of the patent was entitled to all the profits that the infringer made from the sale of infringing structures.

We are unable to trace any connection between the discussion in *Dowagiac Mfg. Co.* v. *Minnesota Moline Plow Co.*, 235 U. S. 641 at the cited page 647, and the point involved here.

Fairbanks Morse & Co. v. *American Valve & Meter Co.*, 34 F. (2d) 867, 871 is another example of those cases which hold that where the patent does not cover the entire article, the profits from the sale of the entire article must be apportioned between that which was contributed by the patent and that which was contributed by something else. That is not the instant case where it has been found as a fact that the patent gave to the product in question its entire salable value.

The cases cited by the defendant which hold that an infringer is entitled to a share of the profits earned from the sale of the infringements, where it is shown that the infringer contributed something to those profits outside of the infringement, such as an improvement in the patented structure, are not applicable to the instant case.

The reasoning of all courts is that the infringer's contribution must be something outside of the patent that enhances the sales value of the patented product and thereby produces more profit, but no court has ever reasoned that where, as here, the infringer's alleged contribution has the effect of depressing the sale value of the patented product, the infringer is entitled to retain any part of the profits or is entitled to sympathy in the court's consideration of the amount of damages.

The contentions as here advanced by the plaintiff and as they were advanced to the Master, the District Court and the Court of Appeals were enunciated immediately after the Supplemental Decree in this case had been entered. The Supplemental Decree was filed December 5,

1931 and the contentions here advanced were first raised before the Master on February 9, 1932. It could hardly have been advanced before the entry of the Supplemental Decree. The Master has found that the question was timely raised by plaintiff (R. 798, 835). The Supplemental Decree raised the question. The District Court also held the question was timely raised (R. 866-869).

Accordingly, based on the facts as they have been found in the instant case, we submit, that the conclusions of the Master, the District Court and the Court of Appeals on the point here discussed were correct, and that those conclusions are not in conflict, but on the contrary are in harmony with the decisions of this Court and with the decisions of other Circuit Courts of Appeals.

2-(A).

The Court of Appeals' refusal to apportion the profits between the infringed patent and patents covering apparatus for making plate glass.

Defendant says that the point involved here is a subdivision of Point 2 dealing with the Court of Appeals' ruling that the infringer must account for the profits it made by its plan of attributing such profits to the market value of the glass used in the infringement. We respectfully deny that the point involved here is a sub-division of Point 2 or any other point involved in this case. It should stand by itself and be allowed or disallowed, according to the rules of law which are applicable to the facts here involved.

It is true, however, that the defendant would, as it were, like to have two bites of the cherry. It argues that if it can not have the profit it made from its infringement because of the so-called market value rule, then it should be allowed to keep those profits because of the applicability of the so-called apportionment rule.

THE RULING: The Court of Appeals has ruled that where the entire commercial value of a mechanism or

product arises from the patent, the owner of the patent is entitled to recover from the infringer the total profits derived from the manufacture, use or sale of the mechanism or product (R. 916).

The defendant asserts that this ruling is in conflict with the decisions of this Court and of other Circuits Courts of Appeals and is not applicable to the facts of this case.

The twenty-six patents owned by the defendant were in no way related to the product, laminated glass, nor plate glass, as such, nor to any operation in the manufacture of laminated glass. They covered details of apparatus which was used by Pittsburgh Plate Glass Company for the manufacture of plate glass, some of one size of which was used by it in the manufacture of laminated glass. The unpatented method of making plate glass by the use of this patented apparatus is referred to in the record as the "continuous process".

The defendant would have the court compare the up-to-date facilities for making plate glass with the less efficient facilities of the past and, since those better facilities enabled it to more effectively infringe the patent in suit, because it could manufacture one of the raw materials at a lesser cost, and also, of course, undersell the owner of the patent to such an extent as to drive it from the laminated glass business, to conclude that the savings (which is only another word for profits) thereby effected in accomplishing a part of the infringement should go to it. That is, Pittsburgh Plate Glass Company pockets the large profit accruing from its part of the infringement, its *alter ego,* Duplate, then fabricates the thin plate glass into the infringing product and delivers it back to its *alter ego,* Pittsburgh Plate Glass Company, the latter thereupon sells it far below plaintiff's prices and far below what Pittsburgh Plate Glass Company says is the cost. Surely an Equity Court can find some way to prevent such an injustice. Are not all rules of law, as administered in equity, designedly purposed to prevent just such injustices?

The defendant argues that this ruling of the Court of Appeals renders a patent accounting into a "proceeding to penalize one who has infringed, by stripping him of everything connected with the infringement and turning it over to the patentee".

The defendant seems to think that that statement is startling. It is generally supposed that that was the very purpose of the patent statutes and the very end sought by every court enforcing the patent statutes. To award the injured party that which the tortfeasor has gained by unjust enrichment cannot fairly be said to be imposing a penalty nor does it strip the infringer of anything that he should not be forced to give up.

The Courts have repeatedly held that an infringer will not be permitted to profit by the infringement. "Always the task (of courts) is to see that the patentee recover every dollar of advantage realized by the infringer from the infringement."

Levin Bros. v. *Davis Mfg. Co.*, supra.

This profit, which Pittsburgh Plate Glass Company would have left with it, is not "remotely connected" with its infringement, as defendant argues, but on the contrary is intimately connected therewith, for as the Master has found, Pittsburgh Plate Glass Company would not have made a dollar of this profit (savings) except for its infringement (R. 841). If this finding is accepted then it is clear that there is a confusion between this profit (saving) and the profits on laminated glass, and even if it be true that that saving was a "very large factor in enabling the defendant to sell laminated glass in competition" with non-infringing glass, yet it must not be forgotten that this same factor was the vital factor which enabled this defendant to undersell the plaintiff and thus drive the plaintiff from the laminated glass business. We do not agree that laminated glass was sold in competition with ordinary shatterable glass any more than it could be said that automobiles are sold in competition with horse-drawn vehicles.

The Court of Appeals predicated its ruling on this point on the fact that the sales value of the laminated glass was in no way enhanced by the fact that one of its component parts, thin plate glass, could be manufactured more cheaply by the use of the "continuous process" than without such process (R. 916).

It is certain, too, that the Court of Appeals, in arriving at its ruling, also had in mind its opinion on the prior appeal (42 F. (2d) 739) in which it found that the patent in suit is a pioneer patent and also the opinion of Judge Schoonmaker (42 F. (2d) 737) wherein Judge Schoonmaker found that we are dealing here with a new article of manufacture, never before the issuance of the Benedictus patent in suit known to the glass, automobile or any other industry.

We confidently assert that the ruling of the Court of Appeals on the point here discussed not only does complete justice between the parties to this litigation but also is in harmony with the decisions of this Court and with the decisions of the Circuit Courts of Appeals wherein the facts are analogous or parallel to the facts in the instant case.

Some of the decisions of this Court and of Circuit Courts of Appeals in harmony with the ruling in the instant case are:

Westinghouse v. *Wagner Mfg. Co.*, 225 U. S. 604, 614 (June 7, 1912, Justice Lamar);

Crosby Valve v. *Safety Valve*, supra;

Manufacturing Co. v. *Cowing*, 105 U. S. 253, 255, (October 1881, Chief Justice Waite);

Carborundum Co. v. *Electric Smelting Co.*, 203 Fed. 976, 981, (C. C. A. 3rd, March 15, 1916, Bradford, D. J.);

Conroy v. *Penn. Elec. & Mfg. Co.*, 199 Fed. 427 (C. C. A. 3rd, October 11, 1912, Witmer, D. J.);

Computing Scale Co. v. *Toledo Computing Scale Co.*, 279 Fed. 648, 677 (C. C. A. 7th October 4, 1921, Baker, C. J.);

Wales v. *Waterbury*, 101 Fed. 126, 129 (C. C. A. 2nd Feb. 28, 1900, Wallace, C. J.).

We submit that the rule applicable to the instant case is the rule enunciated in *Westinghouse* v. *Wagner,* supra, at page 614, to-wit:

> "(b) Where a patent, though using old elements, gives the entire value to the combination, the plaintiff is entitled to recover all the profits. Hurlbut *v.* Schillinger, 130 U. S. 456, 472."

That rule, we submit, is applicable to this case in accordance with the reasoning of this court at page 615 of the *Westinghouse* decision. This infringer has obviously sought to nullify the patent owner's statutory right by ingeniously smothering the patent with alleged improvements in apparatus for making one of the raw materials that goes into the patented product, asserting that since it was able to effect great savings (profits) by the use of those apparatus patents, it should be permitted to retain that saving (profit), even though it be eminently clear that because of that saving it was able to and did undersell the patent owner and thus drive it from the laminated glass business.

Manifestly, any rule that results in such consequences demonstrates that either the rule or its application is wrong. As this Court said in the *Westinghouse* case, the error is in the application of any rule which results in such a consequence and therefore the necessity of Rule (b) of the *Westinghouse* case.

No doubt there are patents where difficulty arises in determining whether the patented article is a complete innovation—a new article, in the broadest meaning of that word "new". But that is not the case with the patent involved in this suit. The District Court and the Court of Appeals (42 F. (2d) 737 and 739) found that the patent here involved was a complete innovation, a pioneer patent and an article never before known to any industry. It is not a patent for glass but for an article that takes the place of glass, partaking of the virtues and advantages of glass and having none of the disadvantages of glass. Surely Rule (b) of the *Westinghouse* case applies to such a patent.

DEFENDANT'S CITATIONS. The defendant's citations fall wide of the mark. In the two *Stromberg* cases cited in defendant's brief, the patent in suit did not cover a unitary carburetor structure but only a particular improvement in a carburetor. The infringer paid royalties on another patented improvement which was incorporated in the infringing carburetor and which enhanced its salable value. The Court concluded that the royalties paid were an expense chargeable against the infringing business.

These *Stromberg* cases fall within the purview of Rule (d) stated at page 614 of *Westinghouse* v. *Wagner,* supra. That rule has its proper place in the law of patent accounting and no one disputes it. But the Court of Appeals in the instant case has found that the twenty-six patents for apparatus for making plate glass contributed nothing to the profits derived from the sale of laminated glass and concludes that the instant case falls within Rule (b) of the *Westinghouse* case, supra. To say that cases like the *Stromberg* cases, conflict with the decision of the Court of Appeals in the instant case is to say that this Court in the *Westinghouse* case, supra, enunciated conflicting rules. This of course is obviously unwarranted.

Again at page 55 of the defendant's brief, the argument is made that if the *Westinghouse* case is applicable to the instant case, then the *Westinghouse* case is in conflict with the decision in *Cincinnati Car Co.* v. *New York Rapid Transit Corp.,* 66 F. (2d) 592, 593, 594. Disregarding the impropriety of such an argument, let us examine the *Cincinnati* case, supra, to determine what was involved.

The patent there involved was for a vestibule between cars in what is called an "articulated train", that is, the adjacent ends of each car on the train are carried by a single truck, thus avoiding the need of two trucks for each car (35 F. (2d) 679). The question involved in the *Cincinnati* case, supra, was whether on a finding of infringement of such a patent, the infringer was liable for (1) all the profits of the railroad; or (2) all the profits aris-

ing from the use of articulated cars. The holding is that there was no way of showing how much the infringing patent contributed to the profits of the railroad, and therefore the patentee was relegated to a recovery on the basis of a reasonable royalty.

Certainly, Judge Learned Hand did not intend or expect that an intelligent reading of his opinion in the *Cincinnati* case would lead to the conclusion that he was in disagreement with this court, or that this court had laid down a rule of law that is of impracticable application.

As we read the *Cincinnati* opinion, Judge Hand merely points out the difficulties that are often attendant upon the application of the ruling relating to the burden of proof, using a nice figure of speech to emphasize the point, but recognizing, however, that such difficulties must and always are resolved by the proper forum. For example, Judge Hand resolves the difficulties in the *Cincinnati* case. What was "left at large" in the *Westinghouse* case (i. e., whether the entire salable value is attributable to the patent in suit) has been resolved in the instant case in favor of the patent in suit by the Court of Appeals.

The defendant also relies on the following cases:

Mason v. *Graham,* 23 Wall. (U. S.) 261 (decided October 1871, Mr. Justice Strong);

Mowry v. *Whitney,* 14 Wall. (U. S.) 620 (decided December 1871, Justice Strong);

Tilghman v. *Proctor,* 125 U. S. 136 (decided March 19, 1888, Mr. Justice Gray).

In *Mason* v. *Graham* the patent sued on covered an improvement in a picker-staff mechanism for attachment to a loom. It is clear from a reading of the decision that the entire commercial value of the mechanism was found not to have been derived from the patent in suit. The Court held that there was therefore presented a proper case for apportionment. Either that is the proper explanation of

that case or else it is entirely inconsistent with the later decisions of this Court.

In this same category, we submit, must fall the decision in *Mowry* v. *Whitney*, supra. This Court in *Warren* v. *Keith*, 155 U. S. 265, 269 (December 3, 1894, Justice Shiras) has held that *Mowry* v. *Whitney* and kindred cases are confined to situations where the patent does not give the "entire value to the combination". That being so, *Mowry* v. *Whitney*, and similar cases are not applicable to the instant case.

Tilghman v. *Proctor* was an accounting for a process patent. The measure of the recovery therefore was the saving effected by the new process over the old process, even though it was conducted at a loss. So far as we read the case, there is no question of apportionment of profits involved.

In view of the foregoing discussion, we respectfully submit that the rule applied here by the Court of Appeals is the appropriate rule.

3

Method of Stating the Account.

THE RULING: The Court of Appeals holds that "proper accounting procedure" requires that, where the infringement of a product claim is being accounted for, each sale constitutes a separate infringement; that the profit derived from each sale must be accounted for and turned over to the owner of the patent; that if some sales resulted in losses, the infringer must bear the losses and may not offset the loss-incurring sales against the profitable sales (R. 913).

This ruling of the Court of Appeals is fundamental in all patent accountings.

Crosby Valve Co. v. *Safety Valve Co.*, supra;
Callaghan v. *Myers*, supra;
McKee Glass Co. v. *Fry Glass Co.*, supra;
Permutit Co. v. *Refinite*, supra.

The above cited cases of this Court and of some Circuit Courts of Appeals which might be accumulated almost indefinitely, have been accepted as a guide for the various District Courts, one example of which is that cited by the Court of Appeals—*Electrical Engineers Equip. Co.* v. *Champion Switch Co.*, 49 F. (2d) 359 (D. C. W. D., N. Y., February 10, 1931, Hazel, D. J.) where it was held that losses incurred by the infringer from the sale of the infringing article below cost are not deductible from the profits found to be due the patentee.

Here too, we submit, the Court of Appeals has not said that this rule must be inexorably applied to every case—it says only that it finds "no substantial factors in the instant case on these issues which differentiate it from the cases cited" (referring to the cases cited above under this heading).

The statements at page 59 of defendant's brief that the Court of Appeals has ruled that this rule is "rigid" and must be applied to every case is, therefore, unwarranted.

The Master and the District Court "recognized" that this rule was so long established as to become practically fundamental in an accounting procedure (R. 812, 813, 875). But, having "recognized" it, both the Master and the District Court disregarded it. The Court of Appeals has said that it is not sufficient to "recognize" a rule but it must also be applied in an appropriate case.

The defendant's cost system afforded an easy way to determine which infringing sales were made at a profit and which at a loss (R. 812, 814). Indeed defendant adopted its particular cost system to enable it to make that very determination. The plaintiff, therefore, using defendant's own cost system, determined those facts.

The only reason for the Master's and the District Court's refusal to apply this fundamental rule is that the infringer in the instant case was engaged in a regular and continuous business during the period in which it made the infringing sales (R. 813, 874).

The question, therefore, is whether that fact distinguishes the instant case from the facts presented in the cases cited above so as to make the rule of law stated in the cited cases inapplicable here. The Court of Appeals said it did not.

We respectfully submit that the regularity and continuity of the business of the infringer in this case was in no degree different from the regularity and continuity of the business involved in the *Crosby* and *Callaghan* and other cases cited above.

The same practical problem that confronted the Master and the District Court in the instant case, confronted this Court and the other Courts in the cases cited above. No infringer usually engages in a business that is not regular and continuous, nor was there ever a cost accounting system which was able to ascertain "specific costs" in the sense of that term as used by defendant. It is elementary that every cost accounting system that was ever devised averages over all units, the labor, the material and the overhead elements of cost.

The determination of the average monthly cost per square foot of laminated glass and the offsetting of that monthly average cost against the selling price per square foot, for which it was sold, is the identical manner in which the defendant itself, in keeping its books, ascertained its profits and losses (R. 107, 930A-C, 812-813).

The four reasons stated by the Master (R. 813) as to why in this particular instance average costs do not reflect specific costs, are present in every business.

The difference in the amount or quality of material used in fabricating each unit, does not differ any more substantially in the instant case than in most other cases.

The cutting losses or other losses in processing are seldom equal in any business.

We believe due credit was given for Edgework and if it was not, the failure to do so rests upon the petitioner in this case, on whom the burden of showing its cost rested.

All fabricated articles require a template, a pattern, a die or a drawing, each of which serves its purpose as well for a thousand as it does for ten.

Accordingly, the infringing business in the instant case does not differ in any of the elements of costs from other businesses which have been the subject of patent infringement accounts, and in which the Courts have held that the method directed to be followed by the Court of Appeals is the correct method.

The defendant's argument on this point, as on the other points involved in this case, is predicated on the assumption that there is some inequity in a rule which forces a tortfeasor to bear all losses occasioned by his wrongdoing while giving the injured party all the gains. The assumption in this argument is clearly erroneous because, as this court said in the *Westinghouse* Case, at page 620:

> "On established principles of equity, and on the plainest principles of justice, the guilty trustee cannot take advantage of his own wrong. The fact that he may lose something of his own is a misfortune which he has brought upon himself, and if, as argued, the fund may have been made by the use of other patents also for which he may be liable in another case, it is again a misfortune he has brought upon himself and an instance of a double wrong and double liability. He cannot appeal to a court of conscience to cast the loss on an innocent patentee and by judicial decree repeal the provisions of Rev. Stat. 4921, which declares that in case of infringement the complainant shall be entitled to recover the profits to be accounted for by the defendant."

DEFENDANT'S CITATIONS: Defendant asserts that the conclusion of the Court of Appeals as to the proper method of stating the account conflicts with cases in other Circuit Courts of Appeals cited by it.

However, the cases cited by defendant do not hold that an account of a "continuous" manufacture of many infring-

ing products may be stated in the aggregate as though it were a single infringement, rather than setting out the particular sales, but on the contrary, in one of the cases cited, the court expressly disapproved of such a method of stating the account.

In *MacBeth Evans Glass Co.* v. *L. E. Smith Glass Co.*, 23 F. (2d) 459, the Third Circuit Court of Appeals does discuss the method of stating a patent account and there expressly disapproves a method which stated the account in the aggregate as if the infringer's conduct constituted one "continuous infringement". At page 462 of the opinion, the court, after pointing out the well recognized distinction between an account for the infringement of a process patent and an account for the infringement of a product patent (as is involved here) says of its prior opinion in *Continuous Co.* v. *Schmertz Co., supra:*

> "The infringing accountant disclosed its infringement as one continuous operation. Whether this was the proper way to start and conduct an accounting was a matter with which this Court was then not concerned for it was accepted by everyone, *although it did venture an adverse comment on the method pursued"* (Italics ours).

As to the opinion of the District Court in *MacBeth Evans* v. *L. E. Smith Glass Co.*, 21 F. (2d) 553, 555, it rested on a misconception of the holding of this Court in the *Crosby* case, supra, and the holding of the Third Circuit Court of Appeals in *Continuous Glass Press Co.* v. *Schmertz Wire Glass Co.*, supra. The Third Circuit Court of Appeals calls attention to the District Court's misconception of these decisions at page 461 of 23 Fed. (2d).

As to the opinion in *Christiansen* v. *National Brake & Elec. Co.*, 10 F. (2d) 856 (D. C. E. D. Wisc. August 14, 1924; March 2, 1926, Geiger, D. J.) we submit that the court did not hold that just because there is continuity of manufacture, the account must be stated in the aggregate as if it were a single infringement. Judge Geiger says at page

871 that he intended no such conclusion to be drawn from his opinion. As we read that opinion, the scope of it is that where a particular infringing defendant has fixed selling prices for a certain number of selling units so as to have the selling prices of that certain number absorb the greater part or the whole of the overhead, still leaving a profit; and has fixed selling prices for other units at a lower figure, which lower selling prices for those other units are so fixed as to absorb the lesser part, or no overhead, still leaving a profit, that such a mode of conducting a business where it exists, must be reflected in any patent infringement account.

Thus limited, the decision in the *Christiansen* Case does not find any application to the facts in the instant case.

There is no evidence in the instant case that the infringer fixed its selling prices for the purpose of saving overhead but on the contrary the proof in the instant case is replete with facts from which the reasonable inference must be drawn that the sole object of the infringer in fixing its selling prices was to undersell the patent owner and thus get the business away from the patent owner.

The facts in *Union Welding Co.* v. *Curry*, supra, are discussed at page 14 of this brief. We are unable to follow the defendant's implied argument that because Judge Denison allowed a loss in 1912 as an offset against profits in subsequent years, he therefore approved the method of stating an account in the aggregate, particularly as he disallowed a similar loss in 1916, when profits were being made.

In view of the foregoing discussion, it is respectfully submitted that if the account is stated in the manner directed by the Court of Appeals, no injustice will be imposed on the defendant, and it is further respectfully submitted that the cases cited by the defendant show no conflict either with the decisions of this Court or with the decision of any other Circuit Courts of Appeals.

II.

General Damages.

1.

May general damages be awarded without giving defendant the right to examine plaintiff's books?

THE RULING: The Court of Appeals has ruled that a patent owner in an infringement suit is not charged with the burden of proving that his damage "is *not* susceptible of calculation and determination with reasonable certainty" (R. 920).

It is respectfully submitted that to impose such a burden on the plaintiff in a patent infringement account would defeat the whole purpose of the Patent Laws. How could any plaintiff ever hope to prove such a negative?

We submit, further, it is improper to garble the sense of Section 4921 of the Revised Statutes of the United States in the way defendant has done it at page 68 of its brief. By the omission of whole phrases and by an abuse of the asterisk, thereby crediting subjects to verbs that are not their subjects at all, the defendant has completely distorted the intent of the Act of Congress.

The purpose of the amendment to Section 4921 of the Revised Statutes, inserted in 1922, was solely to enact into the statute the discretionary power in the Court to accept opinion or expert testimony on the question of the patent owner's damage and to declare such testimony competent.

The Statement on page 68 of defendant's brief that Section 4921 of the Revised Statutes did not authorize the award of general damages prior to 1922, discloses a rather amazing misconception of the law. This Court and the Courts of Appeals were awarding general damages years before the 1922 Amendment.

Suffolk v. *Hayden,* 3 Wall (U. S.) 315, 320 (December 6, 1852, Justice Nelson);

Dowagiac Mfg. Co. v. *Minnesota*, 235 U. S. 641 (January 11, 1915, Justice Van Devanter);
Bemis Car Co. v. *J. G. Brill*, 200 F. 749, 761 (C. C. A. 3rd, November 7, 1912, Buffington, C. J.);
U. S. Frumentum Co. v. *Lauhoff*, 216 F. 610, 617 (C. C. A. 6th June 30, 1914, Denison, C. J.).

The defendant's whole argument under this heading is predicated on the erroneous assumption that plaintiff has failed to offer any proof of facts by which its damages may be measured. This erroneous assumption utterly disregards the findings of the Master and the proof in the record. The Master has found that the plaintiff had an investment of $2,800,000. The evidence is that defendant is indirectly one of the purchasers of the physical assets of plaintiff's business (R. 525-529), and the clear inference from the evidence is that the price paid by the defendants and its associates was such as might be expected from a forced sale. Plaintiff's investment has been destroyed by being driven from the industry (R. 826).

The defendant, by its own admission, has profited to the extent of $2,465,562.72 (R. 1038, 844A & B).

The Master and the District Court have found that even after giving credit to the defendant for the "Rejects" and "Returns", defendant still retains profits, which it asks this court to allow it to keep by way of allowance for use of patents, federal income tax and interest on investment, in the amount of $1,862,456.12 (R. 844B).

The Master has found this loss to the plaintiff and this gain to the defendant was brought about by the defendant's method of cutting prices to such an unconscionable degree as to take the plaintiff's customers from it and drive it out of the laminated glass business (R. 826).

The Master has found that the plaintiff spent $250,000 of its own money and caused the Ford Motor Company to spend $15,000,000 for advertising, the result of which was

to each the general public the advantages of laminated glass (R. 825).

There is proof in the case also by men highly qualified by long experience in the negotiation of patent license agreements, that in view of the facts of this case, a rate of royalty as high as 20% of the manufacturer's selling price would be reasonable (R. 820).

There is proof in the case that in the short space of three years, this laminated glass business built upon the patent in suit grew from nothing in 1926 to over 8,632,000 square feet of laminated glass in 1929 and the prophecy of Mr. Higgins (R. 635) that in 1933 every automobile manufactured in the United States would be fully equipped with laminated glass, has eventuated.

It is therefore respectfully submitted that the assumption of the defendant that there are no facts in the record which can act as a yardstick for measuring the plaintiff's damages, is unwarranted.

The defendant asks this Court to answer the question —"May general damages be awarded without giving the defendants an opportunity to calculate the plaintiff's actual damages?"

The question as stated seems to imply that what the courts term "general damages" is something different from actual damages. This is a new theory. It is generally assumed that what the Courts term "General Damages" was an effort on the part of the courts to approximate actual damages and, therefore, when so approximated, become actual damages.

The fact is the plaintiff here positively and abundantly proved that it had been actually damaged in a substantial amount. It was then its duty to prove how that damage could be measured. It sought to discharge that duty by offering proof by which it believed the Master could measure damages under the following recognized rules: (a) Established Royalty (R. 816); (b) Lost Sales (R. 817);

(c) Prices Reduced (R. 818); (d) General Damages or Reasonable Royalty (R. 819).

The Master found that plaintiff had failed to meet the requirements of the law for measuring its damages under (a), (b) and (c) but had fully met the requirements of the law for measuring its damages under (d). We submit that the purpose of the clarification of the law in the *Dowagiac* Case was to meet just such a situation.

Defendant now argues that it should have been permitted to endeavor to supply proof by another recognized measure, viz., "Lost Profits". It argues that because it was not permitted to examine plaintiff's books, it was deprived of the right to show that the plaintiff had suffered only small damage and that if it had been accorded that right and if it could have shown, in the exercise of that right, that plaintiff lost a profit of only One Dollar on a single sale, plaintiff should have been relegated to the recovery of only that amount, that is, to the recovery of only such "small" damage as defendant might see fit to prove. We submit the argument carries its own refutation. Particularly is this so, *in the instant case, when we consider* the facts as they have been found and as they are set out above.

The only purpose that possibly could be served by permitting the defendant to fish through plaintiff's books would be delay, to the end, as defendant argues, that it might find something to cause the Master to change his mind and award a lesser sum than he has awarded.

Certainly the arguments of defendant are not supported by the authoritative decisions of this court as enunciated in the cases cited above, nor in the decisions of the Courts of Appeals cited above.

DEFENDANT'S CITATIONS: If *Wallace & Tiernan* v. *Syracuse*, 49 F. (2d) 693 (C. C. A. 2nd, L. Hand) at the cited pages 694, 695, does stand for the proposition that it is a statutory condition precedent to an award of general dam-

ages (reasonable royalty) that the plaintiff must show that his actual damages "be not susceptible of calculation and determination with reasonable certainty", then as the Court of Appeals has said (R. 920) that decision must either be confined to the special facts present in the *Wallace & Tiernan* case, or else it is in conflict not only with the decisions of this Court but the decision of the same Judge in *Cincinnati Car Co.* v. *New York Rapid Transit Corp.*, 66 F. (2d) 592 (C. C. A. 2nd L. Hand).

By no intelligent reading of the other authorities cited on page 70 of defendant's brief can any of them be said to rule that "it is a statutory condition precedent to an award of general damages (reasonable royalty) that actual damages be not susceptible of calculation and determination with reasonable certainty".

Overman Cushion Tire Co. v. *Goodyear Tire & Rubber Co.*, 66 F. (2d) 361 (C. C. A. 2nd, July 17, 1933, Manton, C. J.) must have been cited for the reason that the Circuit Judge cites *Wallace & Tiernan Co.* v. *Syracuse*, supra, as being a holding that the award in the *Wallace & Tiernan* case was for a reasonable royalty "because the exact amount of damages could not be proved."

Enterprise Ry. Equipment Co. v. *Wine Ry. Appliance Co.*, 77 F. (2d) 159 (C. C. A. 6th, May 14, 1935, Moorman, C. J.) at the cited page 161, simply holds that since in that case the profits derived by the infringer from its infringement had been determined, there was no necessity to go into the question of whether a royalty should be awarded.

It is incomprehensible how any one can spell out of the citations of defendant a holding that it is a condition precedent to an award of general damages (reasonable royalty) that actual damages be not susceptible of calculation and determination with reasonable certainty.

We submit that on the record presented to the Master he could not in conscience have granted a smaller amount than the present award of $414,120.70. That amount is

about one-seventh of plaintiff's investment in its business; about one-sixth of amount which the defendant made from the billing price of glass ($2,465,562.77) and about one-fifth of the amount which plaintiff's experts testified would have been a reasonable royalty for defendants to have paid.

We further respectfully submit that the Master's award does not compensate the plaintiff for the great and irreparable wrong done it by this defendant's unconscionable infringement.

It was for this reason, no doubt, that the Court of Appeals has applied the rules of law discussed above, to the end that justice might be done and full compensation awarded the plaintiff.

2.

Interest.

THE RULING: The Court of Appeals on this point ruled that "since the case is one in equity, the matter of interest is one within the court's discretion".

We respectfully submit that the ruling of the Court of Appeals is fundamental in the Federal Courts.

Bates v. *Dresser,* 251 U. S. 524, 531 (March 1, 1920, Mr. Justice Holmes);
Miller v. *Robertson,* 266 U. S. 243, 256, 257, 258 (November 17, 1924, Mr. Justice Butler).

These two cases were not patent cases but a patent case is only a tort and the rule of law does not differentiate a patent case from that upon any other tort.

In *Miller* v. *Robertson,* above, this Court held—"When necessary in order to arrive at fair compensation, the Court in the exercise of a sound discretion may include interest or its equivalent as an element of damages", and thereupon

imposed interest from a date prior to the liquidation of the damages.

Starr Piano Co. v. *Auto Pneumatic Action Co.*, 12 F. (2d) 586, 587 (C. C. A. 7th, March 10, 1926, Page, C. J.);
Merrell Soule Co. v. *Powdered Milk Co.*, 7 F. (2d) 297, 300.

The Court of Appeals in this case after a review of the record has found "nothing in the record on which to base a ruling that the District Court abused its discretion" (R. 922).

III.

1.

Good Faith.

This point is discussed because of our feeling that it has a direct bearing on this appeal and the arguments advanced to this Court by the defendants to the effect that the Court of Appeals has unconscionably penalized the defendant.

We submit that in the consideration of each of the alleged errors presented by the defendant to this Court, it should be borne in mind that the Court of Appeals erred in defendant's favor in respect of the knowledge and intent with which defendant entered the infringing business and the manner of its conduct after it entered that business.

THE RULING: The Court of Appeals has ruled that there is evidence in this case to support the Master in his finding that this defendant did not act with wilfulness or deliberation in initiating and carrying on its infringement.

We do not know what evidence the Court of Appeals could possibly be referring to in this ruling. Certainly no such evidence is reflected in the findings of the Master.

The Master rested his conclusion that the defendant did not act deliberately and wilfully on the single fact that the defendant was advised by its counsel that *if it did not dry its gelatine it would not infringe*. But this advice of counsel was not followed. The defendant did dry its gelatine and it knew it was drying it. The advice of counsel to this defendant, therefore, does not negative deliberateness, wilfulness and wantonness, but rather emphasizes it.

The District Court predicated its conclusion that the defendant's infringement was not wanton and deliberate on the single erroneous finding that the defendant "took the advice of counsel who not only examined plaintiff's patent, but the *'plaintiff's process'*, in the manufacture of laminated glass, after which defendant's counsel gave to the defendant his legal opinion that their method did not infringe plaintiff's patent."

We assert that there is no evidence in the record to support such a finding. In the first place, it is not supported by the Master's finding to the effect that counsel's advice was that *"if defendant did not dry its gelatine it would not infringe"*. In the second place, defendant's counsel did not and could not render an opinion on infringement based on an examination of plaintiff's process, since what plaintiff was doing could not possibly indicate whether defendant infringed.

Finally, the Court of Appeals repudiated the District Court's finding, saying that it could not accept as a general principle of law that the advice of counsel, prior to infringement, precludes further inquiry into the good faith of an alleged infringer. Support for that repudiation will be found in *Lee* v. *Malleable Iron*, 247 F. 795 (D. C. E. D. Wisc. Jan. 15, 1918, Geiger, D. J.; affirmed C. C. A. 7th, 263 F. 896).

We confidently assert that every finding of the Master points to deliberateness and wilfulness. The fact that defendant knew of the patent (R. 827); that it told plaintiff

it was not drying its gelatine when in fact it was drying it (R. 794); that it waited before going into the business until plaintiff had established the market (R. 830); that it rushed into the business without adequate preparation (R. 254, 274, 324); that it unconscionably cut prices (R. 826); that it knowingly took business away from plaintiff (R. 826); that it preconceived the plan of hiding the profits it made from its infringement by its billing price of glass to one of its departments, and its use of its patents on apparatus for making the glass, all point to a conclusion of deliberate and wilful infringement.

Based on this, what we conceive to be an error on the part of the Court of Appeals, that Court allowed this defendant $216,540.76 as Federal Income Tax and $358,784.77 as Interest on Investment. Whatever may be said of a tax, certainly interest on investment is a profit. Had the Court of Appeals not fallen into this error, as we conceive it, neither of these two items could have been allowed in view of the decision of this Court in *Larson Co.* v. *Wrigley Co.*, 277 U. S. 97, 99 (May 14, 1928, Mr. Justice Holmes).

Just why the Master, the District Court and the Court of Appeals each arrived at the conclusion that this infringer did not initiate and carry on its infringement deliberately, wilfully and wantonly will always remain a mystery in this case, unless this Court sees fit to brush aside the veil.

2.

Conclusion.

In conclusion, we submit that whether the infringement was deliberate or innocent, on the application of the appropriate rules of law to the facts found by the Master, the District Court and the Court of Appeals—

1. This defendant should not be permitted to charge against profits the cost of making defective product.

2. It should be allowed only the manufacturing cost of the one-eighth inch plate glass that it used in the infringement.

3. No allowance should be made to it for the use of its patents.

4. It should be compelled to state the account by the method adopted to show each individual sale as a separate infringement.

Respectfully submitted,

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